



EXCISE

Department of State

TELEGRAM

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CONFIDENTIAL: 971

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ACTION AF-05

INFO OCT-01 SS-20 NSC-10 NSCE-00 INR-06 CIAE-00 NSAE-00

E-02 L-02: EUR-12 NEA-08 RSR-01 RSC-01 1068 W
055936

PIR 091146Z MAY 70
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC PRIORITY 6245
INFO AMEMBASSY ALGIERS
AMEMBASSY BEIRUT
AMEMBASSY BENGHAZI
AMEMBASSY DHAKHA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY PARIS

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY CF DATE 8/7/81
PORTIONS DENIED AS INDICATED

C O N F I D E N T I A L TRIPOLI 00960

LIMDIS

SUBJ: POSTED PRICE NEGOTIATIONS

REF: TRIPOLI 914 (NOTAL)

1. BACKGROUND: ESSO AND OCCIDENTAL [REDACTED] SUMMARIZED FOR
EMBASSY CURRENT POSTED PRICE NEGOTIATIONS. COMPANIES HAVE MADE IN-
FORMATION AVAILABLE ON RESTRICTED BASIS AND PARTICULARLY ARE CON-
CERNED THAT NO SUGGESTION OF CURRENT LARGE DEMANDS BECOME PUBLIC.
ESSO AND OXY HAD FIRST MEETINGS WITH NEW PRICE NEGOTIATING COMMIT-
TEE MAY 5 AND 6, RESPECTIVELY. ESSO HAD SECOND MEETING MAY 8. OXY
SCHEDULED FOR SECOND MEETING, AND ESSO FOR THIRD, MAY 9. COMMITTEE
HAS REFUSED TO COMMENT ON PLANS IT MAY HAVE FOR MEETINGS WITH
OTHER COMPANIES. ATMOSPHERE OF FIRST MEETINGS COOL BUT NOT HOSTILE,
WITH CHAIRMAN MAGHRABI DOMINATING LARGE COMMITTEE. SECOND SESSION
WITH ESSO WAS NOTICEABLY STIFFER THAN FIRST. COMMITTEE'S TREAT-
MENT OF ISSUE WITH BOTH COMPANIES WAS SIMILAR. FOLLOWING IN COM-
POSITE OF INFORMATION GIVEN US.

2. LARGE POSITION

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A. POSTED PRICE CORRECTION - COMMITTEE DEMANDED "CORRECTION" OF \$2.21 POSTING FOR 39 DEGREE CRUDE TO \$2.65, RETROACTIVE TO BEGINNING OF PRODUCTION. THIS WOULD BE TO 1961 FOR ESSO, WHICH ESTABLISHED ORIGINAL \$2.21 POSTING. MAGHRABI INSISTED 44 CENT ADJUSTMENT WAS "CORRECTION" OF LOW POSTING TO EQUITABLE LEVEL, NOT "INCREASE", THEREBY ATTEMPTING TO LAY BASIS FOR AVOIDING QUIT CLAIM PROVISION INCLUDED IN 1965 CONCESSION AMENDMENTS ON ROYALTY EXPENSING. COMPOSITION OF "CORRECTION" GIVEN AS FOLLOWS:

GRAVITY - 2 CENTS:

FREIGHT - 11 CENTS:

LOW SULFUR VONYRNY - 31 CENTS:

JUSTIFICATIONS CITED WERE:

A. TWO CENT ADJUSTMENT FOR GRAVITY REQUIRED TO ACHIEVE PARITY WITH PERSIAN GULF CRUDES.

B. IN SETTING ORIGINAL POSTING, ESSO HAD CALCULATED MARSA BREGA - ROTTERDAM FREIGHT AT INTASCALE MINUS FIFTY, WHEREAS APPLICABLE RATE WAS INTASCALE MINUS FIFTEEN, RESULTING IN ELEVEN CENT DIFFERENCE.

C. LOW SULFUR ALLOWANCE OF 31 CENTS BASED UPON UNQUANTIFIED SAVINGS TO REFINERS ON EQUIPMENT MAINTENANCE, CAPITAL AND OPERATING COSTS, AND BY LOW AIR POLLUTION, VALUED BY COMMITTEE AT 11-15 CENTS. (COMMENT: THIS SIMILAR TO DEMAND ORIGINALLY MADE BY MINISTRY PETROLEUM PRICE COMMITTEE IN FEBRUARY - TRIPOLI 1334).

B. SUEZ PREMIUM - MAGHRABI PROPOSED 35 CENTS BE ADDED TO "CORRECTED" POSTING OF \$2.65 TO COMPENSATE LIBYA FOR FREIGHT ADVANTAGE IT HAS ENJOYED SINCE CLOSURE OF SUEZ CANAL. FREIGHT PREMIUM WOULD BE RETROACTIVE TO JUNE 1967 - YIELDING POSTING FOR 39 DEGREE CRUDE OF \$3.00. MAGHRABI STRESSED COMMITTEE'S STUDIES INDICATED POST-JUNE WAS POSTING OUGHT TO BE \$3.19, BUT THIS WAS SEALED DOWN TO INSURE THAT LIBYA WOULD REMAIN ATTRACTIVE AREA FOR NEW INVESTMENT. (COMMENT: \$3.19 FIGURE SEEMS TO COME FROM BEIRUT BASED CONSULTANT ABDULLA TARIQI, WHO PUBLISHED STUDY IN HIS JOURNAL PURPORTING TO SHOW THIS TO BE PROPER POSTING FOR LIBYAN CRUDE AND WHO IS RETAINED BY PRICE COMMITTEE). MAGHRABI INDICATED TO OCCIDENTAL THAT 35 CENT PREMIUM MIGHT BE REDUCED BY AMOUNT OF OPEC ALLOWANCES, WHICH WERE SUSPENDED FOR CRUDE EXPORTS FROM MEDITERRANEAN TERMINALS FOLLOWING JUNE WAR.

C. OTHER ISSUES AND POST OFFERS - MAGHRABI SEEMED UNFAMILAR WITH REDUCED PRICE DEMAND MADE BY MINIPET IN MARCH (TRIPOLI 486) AND WITH ESSO'S OFFER MADE IN APRIL [REDACTED] AFTER COMPANIES REVIEWED THIS HISTORY, MAGHRABI REJECTED THESE EXCHANGES AS IM-

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MATERIAL, SINCE ONLY MINISTRY'S FORMER PRICE COMMITTEE, AND NOW HIS OWN, WERE AUTHORIZED TO NEGOTIATE PRICE ISSUE. HE ALSO REJECTED ATTEMPTS BY COMPANIES TO INTRODUCE OTHER OUTSTANDING PROBLEMS, SPECIFICALLY REGULATION 8, STATING HIS COMMITTEE CONCERNED ONLY WITH PRICES AND OTHER MATTERS SHOULD BE NEGOTIATED WITH MINISTRY.

3. COMPANIES REACTION. AFTER RECOVERING FROM DISBELIEF AT SIZE OF INCREASES SOUGHT, COMPANIES CONSIDER MAGHRABI IS SERIOUS ABOUT DEMAND FOR 44 CENT "CORRECTION". THEY HAVE IMPRESSION 35 CENT FREIGHT PREMIUM AND DEGREE OF RETROACTIVITY ARE NEGOTIABLE. SO FAR, COMPANIES HAVE REFRAINED FROM MAKING COUNTER OFFER, CLAIMING 44 CENT INCREASE ALONE IS IMPOSSIBLE TO CONSIDER AND UNTIL COMMITTEE IS WILLING DISCUSS BASIS FOR ITS DEMANDS IN GREATER DETAIL AND TO CONSIDER REALITIES OF CRUDE MARKET, THEY CANNOT MAKE MEANINGFUL PROPOSAL. COMPANIES PLAN TO PURSUE THIS LINE IN MAY 9 MEETINGS, HOPING TO ENGAGE COMMITTEE IN DISCUSSION OF BASIS FOR ITS DEMANDS, SO THESE CAN BE EXAMINED AND COUNTER-ARGUMENTS PRESENTED. HOWEVER, COMPANIES ARE CONCERNED 44 CENT "CORRECTION" MAY NOT BE NEGOTIABLE.

4. COMMENT: IN ESCALATING LARGE PRICE DEMANDS, OBJECTIVE OF MAGHRABI COMMITTEE MAY BE TO SECURE 44 CENT INCREASE ORIGINALLY SOUGHT. HOWEVER, WE THINK AGREEMENT TO 44 CENT INCREASE EXTREMELY UNLIKELY AND BELIEVE THAT FOR SOME COMPANIES IT WOULD BE FINANCIALLY IMPOSSIBLE. RIGIDITY AND URGENCY WITH WHICH COMMITTEE PURSUING NEGOTIATIONS RAISES POSSIBILITY LARGE OBJECTIVE MAY BE TO CREATE CONDITIONS FOR IMPOSITION OF SOME FORM OF NATIONAL CONTROL OVER OIL INDUSTRY.

NEITHER
COMPANY HAS YET RECEIVED A DEADLINE FOR MAKING ITS OWN PROPOSALS, BUT IT MAY COME TODAY. GP-4.
JOSIF

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